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PRESENTATION

Operator

Thank you for standing by and welcome to the Vocus Results Briefing Conference Call. At this time, all participants are in a listen mode. There will be a presentation followed by a question and answer session. (Operator instructions). I must advise you that this conference is being recorded today Wednesday 22nd February, 2017. I would now like to hand the conference over to your first speaker today, Vocus Group CEO, Geoff Horth. Please go ahead, Mr Horth.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Yes, thank you very much and thanks everyone for joining the call. I'm joined this morning by our CFO Mark Wratten, newly appointed CFO. I'd like to formally welcome Mark to the team. We're delighted to have his experience and skills on our executive team and he's, in a short period of time, made a significant difference in the Business. I'm also joined by Kelly Hibbins, our head of investor relations. So without further ado I'll turn to the financial highlights and some presentation.

Obviously the financial highlights tell the story of what's been a significantly transformative 12 months for the business, reflected in a year where we're growing revenue by 400% to AUD888 million. Underlying EBITDA's up 200% to AUD187 million and pleasingly underlying EPS has grown 26% to AUD0.15 per share.

On the back of that the Business or the Board has declared a fully franked interim dividend of AUD0.06 per share. This is a reduction on the interim dividend for FY16, it does reflect in part the fact that there's an expanded shareholder base on the back of the equity raising for the Nextgen acquisition and obviously only part of the earnings for that acquisition in the period. It also reflects the Board's acknowledgement that we have some significant, very strategic infrastructure investments on the horizon for the business. Some opportunities to invest the Company's capital in projects that will be very -- create great returns for shareholders in the longer term.

Turning to the Group highlights, I won't talk too much about the operating business units performance on this slide, I will in a little bit more detail in the coming slide. But I will say at an eye level I'm really pleased with how those businesses have performed. We've obviously had a lot of acquisition activity in the period but we've seen good underlying trends in each of the segments as well with strong, organic growth across all segments.

In terms of the strategic highlights, as I mentioned before we've appointed Mark Wratten as the CFO. We had the extraordinarily experienced Bob Mansfield join the Board as a non-executive director in January of this year. Bob is an excellent addition to the Board. We made some significant investments in infrastructure in the period as you would no doubt be aware completing the Nextgen acquisition and also launching our Australia/Singapore cable project. It's obviously a significant investment in an infrastructure asset that will deliver competitive advantage to the Business but also very strong rewards to shareholders in the longer term.

What you may not be aware of, we recently acquired a small energy retailer in New Zealand, the business is called Switch. Switch is, as I said, a small energy retailer and an opportunity for us really to build a platform of selling energy as part of our Telco proposition that we have in Australia, what's been a very successful strategy for Dodo in Australia. It's allowed us to build new distribution and product advantage and improve customer loyalty and we're very excited about the opportunity to replicate that in New Zealand.

Turning to the segments, first of all I'll talk to the corporate and wholesale business. Corporate and Wholesale is currently managed by Michael Simmons or Mick Simmons. Mick is a non-executive director who has been appointed as Executive Director running this division while we conduct an executive search to find a permanent replacement.

The segment has once again some contributions from acquisitions but has also a very strong underlying, organic, growth rate. About 8% growth in revenue is organically in that segment. We've made some pretty significant investments in that segment as well. The expansion of our sales team that's been progressively happening over the last 12 months and as we foreshadowed at the start of the year a revving up of our provisioning work teams.

We've had three extraordinary successful quarters of sales and that's put some pressure on our service delivery and service assurance teams so we are working very diligently and building out that team to make sure we can meet our customer's expectations, but also so that we can actually recognize the revenue a little earlier. So it's a good opportunity for us, but it's obviously been an area where we've had some work to do.

Obviously this division has a lot of work to do in terms of integrating Nextgen building the product and provisioning and sales teams from Nextgen are coming directly into this operating division and we've made good progress there. We've just completed our day 100 milestone. All of the sale teams are now coordinated representing the Vocus brand with the Nextgen assets as part of their portfolio they take to market.

We had a key call out in terms of -- one of the opportunities in the corporate and wholesale market is really the opportunity for us to take that business up into a more enterprising government market as well. Both Vocus and Nextgen have some limitations about their capacity to compete in that market. Nextgen had a significant long haul asset but didn't own the access or much of an application layer.

With the 5000 on their buildings that Vocus now has in its portfolio combined with that significant inner capital and regional network plus the opportunity to offer our voice in Cloud offerings over the top of it, there's frankly a much more significant enterprise and government opportunity for the combined businesses. So we're building out the government sales team and really trying to take that asset out for a spin in that market if you will.

Looking at the Australian mass market business. This business is run by Scott Carter. It's a business that had -- its revenues on a proforma were down 6.2% that's largely the result of an investment of a non-core business, it was in the prior period, Aggregato US, it's a prepaid calling card business that was in the revenues for the last year. When you ignore that the revenues have been largely flat in that segment.

That's really evidence that's sort of a result of some declines in the fixed voice space which we foreshadowed as we move our customers into IP, we do see a decline in revenues in the fixed voice. We just had better churn and margin outcomes though. Obviously we've had some declines in our mobile subscriber base.

Offsetting that is very strong growth in our broadband portfolio and in our energy portfolio. We've grown energy subscribers by in excess of 20% over the last 12 months, so that's becoming a meaningful contributor to revenue and earnings growth in the segment. Particularly pleasing is our performance in NBN. We've taken -- Dodo and IPrimus now represent 7.3% of all active NBN subscribers. That number 12 months ago was 6.2%, we really made some market share gains there. We're consistently taking more than 10% share of all new activations every week. So that implies that we're going to continue to grow share in that market.

I think probably the best thing about that is that we don't have the margin challenge of migrating customers to NBN. We're making broadly the same margin per subscriber in NBN that we are in copper broadband, but we have a significantly lower churn profile. You've seen the detail in the presentations that we had for the half about 1.3% per month churn in NBN subscribers in the consumer division. That compares with our copper broadband churning at about 3% per month.

As you migrate more and more customers to NBN and we had, at the end of December about 110,000 customers on NBN. We'll be approaching closer to 200,000 by the end of the financial year, it becomes a pretty significant tailwind. You've just got a larger proportion of your customers on a platform where we can deliver a better experience. Those -- you're not having to run as hard to replace those lost customers. So we're very excited about that opportunity. We are dedicated to exploiting it for all its worth.

Onto the New Zealand business, once again it's not a result. New Zealand's had growth in all segments. You know obviously a very significant contribution from acquired growth but I think the organic growth in the segment's about 7.8% on the pcp proforma numbers. So yes, really pleasing result from a very capable team in New Zealand led by Mark Callander.

The market share in UFB likewise, similar to Australia we're starting to see some growth in UFB. New Zealand really buckled down on the start of this, well the start of last calendar year I should say and decided that, you know, winning a new UFB was the most important priority. We've seen market share growth 11% to 12%. In terms of share of new orders in that technology we're well outperforming our current share of markets. So we do expect that share to continue to grow.

It's a market where you get actually ARPUs and AMPUs, actually superior to the copper broadband ARPUs and AMPUs and that's just largely reflective of the fact that the customers are selecting higher speed tiers. They're getting access to100 meg and 1 gigabyte services today and they're invariably going for unlimited so it's actually driving our ARPUs up.

We have about 1% per month better churn in UFB than we have in copper broadband in New Zealand as well. So once again that's an opportunity that we're taking full advantage of and we feel like it's going to create long term value for our Business.

As I said before, we acquired the Switch business and we are working really diligently to get that ready to launch into our consumer brands and we also had a very strong result in our corporate and wholesale segment.

We signed up a couple of very meaningful new wholesale operators in the first half of the year to new entrance to the Telco market who are looking for a partner to enable them for the UFB opportunities. So we'll start to see some benefit of that coming through in the future periods. Likewise in the corporate market that business is now able to offer -- what were the old Vocus customers who were largely dependent upon a [longal] network, we're now able to lay our application portfolio over the top of that and really start to have more meaningful conversations in that corporate market in New Zealand.

As I said, I think a pleasing result and good progress in all the segments and it was particularly pleasing in the context of those businesses. They've had a lot on their hands in terms of integration activity. They've managed to maintain the underlying momentum to deliver some good numbers.

That's a bit of a summary of the highlights of the segments. I'm now going to hand over to Mark and Mark will talk to the financial.

Mark Wratten ***- Vocus Communications Ltd - CFO***

Thank you Geoff. Let me start by saying that I am very pleased to be joining the Vocus Group and to work with Geoff, the Board and the entire team to build upon the great platform that they have created. In addition to this presentation, we've also today published our statutory 4D and half year financial statements as well as a more detailed operational and financial review document which contains more detailed information covering our core businesses. So I'd point people to those documents.

Moving to slide 10, Geoff's already spoken about our strong growth in reported revenues, underlying EBITDA and underlying earnings per share. These great results against the prior period have been driven by the inclusion of the xM2 business which was acquired in February of last year for a full six months in these earnings. As well as the benefit of including two months of the Nextgen business which was acquired in October last year.

Moving to slide 11. Earnings reconciliation, in line with our previous period and reports, we've presented our key financials on an underlying basis and remain consistent in regards to the significant items that we've adjusted for. This reconciliation walks us through from those underlying results to the statutory reported results that are included in the 4D and financial statements.

Those items include the costs associated with the acquisition and integration of businesses. In the first half we occurred around AUD16 million of such costs and we expect this figure to reduce in the second half to around AUD3 million to AUD4 million. The other items we adjust for is the amortization incurred in the period relating to the acquired customer contract intangibles and acquired software intangibles. These items total AUD44 million in the first half and we expect a similar amount in the second half.

I want to take some time on this slide. This is the cash flow slide and also the next slide. It's obvious from looking at our cash conversion percentage of 71% that our cash flow management in the first half was disappointing and needs to be improved significantly as we move into the second half and then into FY18. Our performance was mainly driven by a lack of discipline around the management of work and capital which moved around AUD76 million negatively in the half. Of this AUD28 million was due to the normalization post-acquisition of up front deferred costs associated with new customer acquisitions, particularly in our mass-market business. This normalization impact will lessen materially in the second half.

Other negative working capital movements totalled AUD48 million and were a combination of higher receivables prepayment and inventory balances, as well as lower payables deferred revenue and accrual balances.

Moving into the second half, we expect to improve upon operating cash flow and increase our cash conversion percentage based on stronger second half EBITDA performance and Geoff will speak to that more in his guidance section; significant management focus on improving our collections and overall working capital performance across all areas of our business, which I'll be leading myself; the introduction of tighter process controls and governance over our capital expenditures and as I mentioned earlier, the lesser impact of the deferred customer acquisition costs normalization. Overall, I'll be closely monitoring our working capital initiatives going forward and as I said, expect an improvement by June 2017 and further improvement into next year.

The cash flow to net EBITDA -- net debt bridge, I've already spoken about our cash flow performance. This bridge sets out our key cash flow items that bridge our opening to closing net debt position. Working capital, as I mentioned earlier, was the main drag on our cash performance. I won't repeat my earlier comments other than to say it's a major focus going forward. Other key cash flow items for the half included interest and tax of around AUD39 million, net capital expenditures of approximately AUD110 million, which was inclusive of around AUD26 million for the ASC project, the equity raising obviously in July last year, the acquisition outflows were predominantly Nextgen and the final dividend of FY16 of AUD34 million.

Capital expenditure, the total CapEx in the half, excluding the ASC project which I'll discuss shortly, was AUD93 million, which included AUD23 million of IRU payments. The large components of this expenditure was in our networks, around AUD39 million and fibre and ethernet around AUD29 million. We've reforecast our CapEx and our full year expectation now is around AUD182 million with the bulk comprising growth CapEx and IRU payments. Our second half depreciation expense is expected to be around AUD50 million, it was AUD36 million in first half and above the line amortization costs of AUD10 million, against AUD8.4 million first half.

The Australia Singapore Cable, or ASC as we call it, was announced in December last year and we have commenced the build of that project, which will deliver a 4,600 kilometre submarine cable linking Australia to Singapore and Indonesia. As Geoff mentioned earlier, this represents a $170 million investment and the cash flow profile is set out on this slide. We did incur a large payment through Christmas, however only had minor outflows scheduled up until June, the larger payments will be incurred next financial year. Overall, the project is expected to be completed in August/September of 2018. We have appointed a dedicated team and managers to the build project and also pre-sales to cornerstone customers.

In regards to acquisitions, we remain very focused on delivering the synergies that we targeted at the outset of the three major acquisitions which we've completed in the last two years. We're making very good progress and the run rate at the end of December is almost AUD48 million. All of the synergies have been tracked and reported upon through to the Board. In addition, we have numerous integration projects underway around key sales, operating and billing systems, which will all assist in delivering a more efficient back office environment and customer experience.

Our balance sheet, the major movements in the balance sheet from June to December really relates to the acquisition of the Nextgen business in October and just as a note, the acquisition accounting for this has not yet been finalized, however we do not expect any further material changes.

Net debt, our net debt position at the end of December was AUD988 million and the movement from June was set out in that earlier bridge that I showed you. Our key covenants are leverage, which is net debt to EBITDA, gearing and interest cover ratios and all covenants are well within our facility limits as can be seen in our headroom on the slide.

Shareholder returns, the table on the right hand side of this slide highlights our improving diluted underlying earnings per share over the last few years, which has grown at a compounded average growth rate of 31%. As Geoff mentioned earlier, the Board of Vocus has today declared a fully franked dividend of AUD0.06 per share which will be payable on April 21 with a record date of April 4. The dividend reinvestment plan will be in operation and the discount offered will be 1.5%.

I'll now hand back to Geoff who will take you through the outlook for the second half and provide an update on our earnings guidance.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Thanks very much Mark. I suppose to talk to each of the segments, really the corporate and wholesale business is really just now about leveraging the platform we built. We have a significant network asset, we have an expanded sales team and really big opportunities for that business to move into new markets. We have a very significant, on there, footprint now. We are looking at how we expand that into the government space, as I said.

We also have, I believe, some very interesting opportunities in wholesale with a couple of material wholesale customers signed in the first half. We have the opportunity, I think, to really leverage the NBN in that wholesale business. We're launching our NBN aggregation platform today, we see a real need in the market for someone to enable all the smaller players and that's going to be a very big focus for us.

As I said, as you would be aware, that provisioning, the good problem to have that we have, which was having exceeded our expectations in sales was putting some pressure on our provisioning platform. The team have done an unbelievable job of getting us back on track in that area and that will have an impact on second half earnings, obviously, as you start to recognize those very profitable revenues. We've got some more work to do there. Really the focus now is actually about automating everything that we possibly can in that area of the business and making the customer experience -- enhancing the customer experience.

I think the marketing efforts really focused around -- we've done some work building awareness. We need to do a little bit more work on that, but frankly it's about driving penetration, so we have dedicated teams looking at how we get more penetration, more on-net buildings and we have our efforts very much focused around driving awareness in those local areas or in those on net buildings, so big focus about leverage that asset. It's 5000 on-net buildings today and we want to fill them up.

The mass market business is really about frankly more of the same. We want to continue to grow share of NBN, we have aspirations to grow on the 10% share we're taking today. We think that we had a go and so we took iPrimus to market and tried to test whether that was going to resonate with a part of the market. We're very pleased with what we've seen there, we're about to relaunch that brand, we still have some work to do to make the customer experience more seamless. Average provisioning lead times are about 50% longer in iPrimus than they are in Dodo and that's just because Dodo is so highly automated. We're doing a lot of work to improve that onboarding experiences for iPrimus customers and we believe that's a new growth plan for us in that market.

We see opportunities in the small business market as well, we've been talking about this for a while, it's a very significant change for a small business to move to the NBN. In a lot of cases, they're having to throw out a lot of their premise-based equipment and move to cloud-based offerings like our Commander phone solution. They've been very slow to adopt though. You talk to NBN, they'll say one of the great frustrations is getting businesses to act and to move into NBN, but that race is about to start and start in earnest. So yes, we definitely see some opportunities to grow our sales presence in Commander and take advantage of that.

Transformation of customer experience is the theme across all of the business units. We made an investment in the salesforce service cloud and that project is rolling out now. It's really about putting a skin around our billing platforms to get a better understanding of our customers and their habits and their behaviours and give our agents a single consult to improve self-help. iPrimus is the first cab off the rank for migration of that platform and it's expected to happen in about July of this year. Also delivers obviously cost to serve benefits for us and that project's really critical for us, being able to drive our analytics capability and understand what's the next best action for this customer.

Big focus on online as well in that space. We definitely want to improve our online experience for customers signing up and our self-help. Once again, a very valuable channel for us if we can get that right and an opportunity to take cost out of business and give customers what they want and we can give them better self-help tools. So more of the same in mass market and really about driving home our NBN market share.

Likewise in New Zealand, that UFB, that good start we've had on UFB, we need to continue to deliver on. We're looking at our brand portfolio and thinking about how we can get a better share of voice in that market, it's a very crowded market. We've been outperforming our market share, we want to figure out how we can take that to the next level. As I said, pleasingly the AMPU and ARPU trends in UFB suggest some sort of tailwind. Along with the churn and some higher ARPUs, there should be some good revenue growth opportunities there.

The team in New Zealand has made excellent progress on the integration, really have driven the network integration very, very hard and the IT system integration very, very hard. Then if we move to the optimization of the customer experience, really we've got a bit of work to do in product build, we've got a bit of work to do in self-help and our own agents' experience with our systems and that's where their focus will be.

As I said before, we won a couple of material wholesale customers in the first half and we have some opportunities in corporate, so that's actually just about building out the product portfolio and putting more feet in the street really and getting sales teams out there talking to customers. Definitely have the network and the reputation in that market to be able to sell to any customer, we definitely are going to take the platform out for us again.

As we mentioned before, the Board has reiterated FY17 guidance of EBITDA in the range of AUD430 million to AUD450 million. The key contributors to the uplift from first half to second half EBITDA will be clearly a full six months of Nextgen, just over two months' contribution in the first half. We'll get the benefit of the organic growth in the segments, particularly as we start to see broadband and energy growth and the core offering in the corporate segments of fibre and ethernet as we start to get that provisioning backlog billing as well.

Probably the material and wholesale customers we talked about before, both in Australia and New Zealand will make a contribution and clearly the benefits are synergies flowing through with a run rate of AUD48 million exiting December, growing to AUD57 million by the end of this year. So we'll definitely see the benefit of those synergies flow through in the second half and hence we're happy to reiterate guidance.

As we said, CapEx will be in the vicinity of AUD180 million for FY17, running at about 10% of revenue. That's excluding AFC, which takes the total to about AUD217 million. As Mark mentioned, we have a very big focus on that project at the moment. We have the construction team in place, we have a project framework and governance around that project today to make sure that we deliver on all the deliverables.

We're just about to sign the next variation of the contract which locks down all the technical specifications and we have had a very big push in presales, we have proposals in front of a number of significant cornerstone customers and we're about to start the next round of sales of that project into the second tier prospective customers, so we'll be pushing very hard to get those underpinning customer commitments for that project.

In terms of the broader business priorities, this is the last slide and I think this is the theme you'll see through all the segments really, the business is about taking share. I think NBN and UFB are significant opportunities for our business, it's a churn event, it's an opportunity for customers to contemplate a new provider and we want to be front and centre with those customers. We know that we've got a brand that's going to resonate and brands that resonate in particular segments, we know how to get to those segments and we definitely want to accelerate our growth in that market.

Importantly, as Mark mentioned, is that growing shareholder returns in a particular level of discipline around how we manage our capital is a disappointing part of the first half result and it's really up to us to turn it around now. As Mark would say, it's imminently fixable, it's about discipline around collections and capital management and I have every confidence that we can improve upon that first half performance. We've got to deliver on synergies. There's enormous opportunity to make the business more efficient in doing that and really to safeguard it against competitive threats.

Being the most loved telco is we want to give our customers a great experience because it's good to do that from a customer, obviously customer advocacy is important to us and frankly customer tenure is very important to us. If we deliver our customers a predictable, reliable experience then they're going to stay for a long time.

We are a category that has excellent macro trends from consumer to business, to corporate and government there is an insatiable demand for scalable, reliable, connectivity and we've got a network and business and brands that are well positioned to take advantage of that macro theme.

We want to make sure that we deliver that in a way that costs us as little as it possibly can and that's really about automating everything. We're going to give the customer opportunities to control their experience wherever we can, what they want and it delivers good benefits from efficiency for us.

So we've got a massive amount of data in our business and we want to use that to really start to understand our customers' behaviour to look at churn triggers and move house and think about what might be based on their profile and their TV viewing habits through Fetch, all those sorts of things. What they might be interested in from a product perspective and move our customer marketing from a one to many approach to a one to one and be much more intuitive. So it's a very big focus for us and it's really all underpinned by our people.

We talk about our values a lot because at the end of the day they're all that matter. You live your values, you create a great environment and you create a great place to work. We're only ever going to be successful if the people who turn up for work every day are engaged and compassionate about what we're doing and they're very focused on that because it underpins everything else we're trying to achieve.

That's all I had to add to the presentation today. Obviously, there are a number of appendices that you have the opportunity to process and there's a significant amount of information in the OFR. There's a significant step up in terms of the transparency and visibility of the underlying performance of the business.

I think it's also worthwhile pointing out that we have changed the segment approach. We really now are reporting in the way the business is managed. We used to have business in Australia as a category or part of those business revenues or the Commander revenues were managed in mass market. What you see now is the corporate and wholesale division which is an operating division in its own right.

The mass market which includes our small business Commander brand and dodo and iPrimus in Australia. Then you see the New Zealand segment. We will evolve our statutory reporting to align with those segments hopefully by the full year. It's really about giving you a good look through on how the business is performing in each of the segments. I'll now hand the call back to the operator and open the floor for questions.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. (Operator instructions) Your first question comes from Eric Choi from UBS. Please go ahead, your line is open.

Eric Choi *- UBS - Analyst*

Hey guys, thanks very much for the questions. I just had three if that's alright. The first only just on your consumer broadband momentum, so obviously the DSL broadband net adds went backwards this half more so than previous half. Just wondering if you can give us an idea of the September quarter momentum versus the December quarter momentum. I'm trying to get a sense if those declines accelerated after you put through those dodo price increases?

Second question also on Mass Market Australia, your additional disclosures were really helpful but I'm just trying to reconcile the 4% revenue decline to the 15% EBITDA increase. So it seems like EBITDA benefited from CBC being captured in shared services and also this reset of deferred SACs. So just wondering how big these benefits were?

Then just lastly on the second half skew, it looks like you're guiding for at least, or for second half EBITDA to be at least AUD60 million above first half. Obviously AUD30 million of that comes from Nextgen but just trying to get a feel for how much of the balance is just seasonality? So you've given us first half 2016 EBITDA of AUD167 million. Can you just confirm that second half 2016 EBITDA number on a pro forma basis please?

Geoff Horth *- Vocus Communications Ltd - CEO*

So Eric I'll take the first question. The net adds in the broadband space in the first half were impacted by, largely by the provisioning platform issues. So a significant slowdown in sales and you'll see we had an increase in churn as well.

Churn went from 2.6% to 3% from first half to second half. So the platform didn't just affect our sales activities, it affected our customer experience more broadly. There were issues with relocations and service orders and everything for our existing customers. Part of that's why churn was driven by the provisioning platform and partly due to price increases.

So we've done a lot of interrogation of those price increases. There were some areas where we probably won't follow through in other segments. We'll be pushing those customers into NBN as quickly as possible but it is a combination of those two factors.

As you say, the broadband has been down on the prior period, is largely attributable to the, as we called out at the AGM, that we've had some issues with the provisioning platform. We can tell you that they'll have the switch by first and second quarter but the third quarter, our February run rate is really strong. We're seeing good adds and good share in the NBN and some good net growth perspectives.

As you've called out and as we've described, I think the business in the OFR, the business grew to climb revenue in the mass market segment and we grew EBITDA. The two primary factors that contributed to that were the partly CVC costs that are in part attributable to the mass market and are now captured in the network or the shared services line because that's where those costs are managed. Think about when we operate our network with provision of CVC it doesn't just support our mass market customers, we have wholesale and corporate customers utilizing NBN circuits as well.

Fundamentally, in some respects they get a bit of a free kick from the consumer customers because they're largely business customers and they're using that CVC during the day. In our peak periods the residential customers are of a night.

So we do capture that cost in the network P&L and it does give some relief to the cost base of the mass market and likewise as you say the third subscriber acquisition costs which we've called out. I think the total contribution in the first half across the mass market or across the business is AUD27 million or something like that.

Mark Wratten - ***Vocus Communications Ltd - CFO***

AUD28 million across the business. For the mass market it was around AUD21 million.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Yes.

Eric Choi - ***UBS - Analyst***

Can I ask a follow up to that one just because in the scheme booklet it looked like that amount was on a net basis about AUD16 million on EBITDA. I'm just wondering what the puts and takes are in terms of the movement?

Geoff Horth - ***Vocus Communications Ltd - CEO***

We'll probably have to take that on board Eric and come back to you. The detail around what -- the scheme booklet I'm not -- [for me it is] but I can't recall the actual number and how that's varied to what was -- how it's varied to what was in the scheme book. We probably -- I need to give Mark the opportunity to go and have a look at that and come back with an answer on that one.

The last question was actually about the AUD60 million growth in underlying EBITDA from the first half to get from AUD187 million to somewhere in the AUD430 million to AUD450 million. I think as you say we've called out upside, I think we said AUD30 million to AUD35 million in Nextgen in the second half against AUD11 million in the first. That's pre-synergies number. Obviously there's some synergies flowing through from the day one through to changes. The organic growth in the --

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Mark Wratten - ***Vocus Communications Ltd - CFO***

It's two extra months of M2 as well in the second half. It came on in February last year so we've got a full six months versus --

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Geoff Horth - ***Vocus Communications Ltd - CEO***

Yes compared to the first half the growth from --

Mark Wratten - ***Vocus Communications Ltd - CFO***

Sorry yes.

Geoff Horth - ***Vocus Communications Ltd - CEO***

-- AUD187 million. So obviously the synergy is flowing through growing from AUD45 million to AUD57 million -- a run rate of AUD47.5 million. I make a pretty material contribution as well. Some organic growth in our broadband portfolio and energy portfolio and then we started to catch on that Fibre & Ethernet backlog and that's obviously quite accretive revenue -- very profitable revenue. So we said we would reiterate our guidance and it is a pretty significant lift from the first to the second half but there's a couple of themes in there that will actually make that eminently achievable.

Eric Choi - ***UBS - Analyst***

That's helpful. Are you able to give us that second half 2016 pcp number? Is it about AUD185 million-ish, would that be?

Geoff Horth - ***Vocus Communications Ltd - CEO***

Yes, I think, sorry the second half [CGT]?

Kelly Hibbins - ***Vocus Communications Ltd - Investor relations***

Yes, you're asking about the second half proforma number. Well the second half pro forma number was in the results last year. Other than -- we obviously didn't have M2 for a whole six month period but you've got most of it in there.

Eric Choi - ***UBS - Analyst***

Okay, that's helpful. Thanks very much.

Operator

Your next question comes from Kane Hannan from Goldman Sachs. Your line is now open, please go ahead.

Kane Hannan - ***Goldman Sachs - Analyst***

Good morning Geoff. Good morning Mark. Just a couple from me. Just quickly reiterating the EBITDA guidance, I just wanted to check that the NPAT guidance was also unchanged? Then just in the corporate division, I think you've stopped disclosing that net monthly recurring revenue which was the [AUD]1.35 million in the first quarter. So I was just wondering if you could give us an update on that for the second quarter. Then just some more broad comments around what you're seeing across Australia, whether there's a weakness continuing in Western Australia. Then just the decline in the Data Centre revenues?

Mark Wratten - ***Vocus Communications Ltd - CFO***

Yes I'll take the first question. So our guidance on NPAT is also unchanged.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Okay and in terms of the MRR number Kane, we've obviously got, we had a profile of actually disclosing what the gross value of sales is. We have seen three consecutive quarters of very strong results. That number was actually factoring in the price erosion and churn impact in that segment.

I think probably the best way to describe it is we're just going back and reassessing that. We're actually having a look at that measurement framework and just testing that we're actually comfortable with that net MRR number, that it actually does capture all of the price erosion and churn impacts in that segment.

There are revenues in that segment such as the M2 wholesale revenues now which were not captured in that calculation. We just need to make sure that we're comfortable that it does reflect what the net organic growth achieved in the quarter was.

What I can say is that the gross number, the value of sales in that second quarter was broadly in line with the first. You'd expect it to be much weaker because it's a pretty, it's very hard to get to engage too much with the corporate and wholesale market in December.

So I'm pretty pleased with the momentum we have in that sales team. We just want to go back and I suppose test whether that net MRR number is actually representative of the total corporate and wholesale business rather than just the [ex-focus] business is probably the clarification we're looking to do there.

In terms of the Data Centre decline. It's actually one of our AUD1 million on the pcp. It actually just reflects a bit of price pressure around a couple of major customers. We had three or four customers. It's not an area where we're getting a lot of growth. As you know our portfolio has been relatively stable for a couple of years now. We just had a couple of major customers in that portfolio that we needed to resign last year. So there's been a bit of revenue pressure there.

In terms of the West, I don't think we've seen any worsening of the situation on the West Coast. If you look at the vacancy rates in commercial property, they seem to have bottomed out about 12 months ago. We're seeing that in our sales teams. It's not an area where we're getting significant growth by any standard but it's an area where we're seeing plenty of opportunities for new business.

There's a whole heap of -- there's a new government panel contract in WA that we're on. There is some pretty significant business coming up for tender in WA and I think pleasingly being more than our fair share. It's less of a growth economy than it was obviously.

Those sort of environments people are looking more to figure out how they can improve the efficiency of their business rather than investing everything in growing it. We've got a great story to tell them about how we can apply our service, save them money and improve their connectivity.

Kane Hannan *- Goldman Sachs - Analyst*

Thanks very much.

Operator

Your next question comes from Fraser McLeish from Credit Suisse. Please go ahead.

Fraser McLeish *- Credit Suisse - Analyst*

Thanks very much. Could I just go back to that 8% organic growth in corporate wholesale revenue? Can you just confirm, is that a kind of -- that's a net number after taking out any customers losses or whatever and after taking out the Fibre build contract that you've lost?

Given the provisioning backlog should ease in the second half, is that a number we'd expect to increase in the second half? So that's my first one and then my second one Geoff, just on the overall competitive environment in consumer broadband likely to Vodafone coming in this year.

You sound reasonably confident in continuing to be able to win market share. What do you think is your key differentiators and your products that are going enable you to win that market share? Thanks.

Geoff Horth *- Vocus Communications Ltd - CEO*

Yes I think to talk to the 8% organic growth, you're right it's actually largely being driven by our Fibre & Ethernet business and internet profile is largely -- we're seeing some continued growth in the market for internet but some price compression that's been a theme in that segment for a long time.

I don't think -- I don't see any reason why we can't -- and when you back out those one-off benefits in the first half of FY16 I don't see any reason why we can't grow that growth rate into the second half. As you say there's a bit of a provisioning backlog there and we've been working really hard to fix that.

We've got a couple of potential one-off opportunities in the second half as well, which we'll call out as they come up. I think you should expect to see underlying organic growth in that segment continue, and potentially some one-off benefits with some major customer opportunities in the pipeline.

In terms of the competitive environment we -- I think we're not seeing any difference in terms of our capacity to take share today. As you say most of the people you're calling out, Vodafone, Amaysim, and those guys, are yet to come to market. There's speculation around Kogan as well.

Frankly we see that as an opportunity as much as a threat. We think we're perfectly positioned to enable them to enter into the NBN. We think it's a good opportunity for our wholesale business. It will drive more scale into our networks, help us manage our back haul -- get better returns on our back haul assets, and even to some extent to optimize CVC and IP.

Will it take some share out of the market? Potentially. We think that Amaysim and Vodafone are -- significant existing customer bases and some strong customer loyalty, both businesses doing well. I think if they came to the market they would soak up a bit of share for a period of time. That's what we saw in New Zealand when 2degrees launched their broadband offering.

I think at the end of the day you've just got to be disciplined around your brands, where they sit, and how you go to market, and make sure you're making appropriate investments. It is a take share market. We're three to four years of that network rolling out and people actively making decisions. We've got brands that actually have very clear positions in the market, have a very clear go to market proposition, and great experience in acquiring customers in the market.

So it might take a little bit of share out of the market, but I still remain confident that we could -- the momentum we've got and that we're growing upon gives me great confidence that we'll be able to continue to take share.

Fraser McLeish - ***Credit Suisse - Analyst***

Great, thank you.

Operator

Your next question comes from Andrew Levy from Macquarie. Please go ahead.

Andrew Levy - ***Macquarie Securities - Analyst***

Thanks. Hi Geoff, hi Mark. Well done on the increased disclosures, just off the bat. I think it's great to be able to get all that detail and look forward to going through it. Just a few questions from me.

The first one's maybe for Mark, just on the comment around tighter controls on CapEx. Can you just talk to what has been happening there and how that might tie into corporate sales strategies and what you need to change going forward? Also whether you can just talk to that underlying 10% CapEx per sales number, if that's sort of a good starting point for medium-term capital demand on the business?

The second one also in the corporate space, just on Nextgen, it looks like your full-year number's sort of AUD41 million to AUD46 million, and I think at the half or at the AGM it was AUD41 million. So I was just wondering if there'd been some contract wins there, or something. I think they're both pre-synergy, so I don't know if that's a cost-out story, but just what's changed there.

Just thirdly if you could confirm that everything we're seeing in guidance for the year is business as normal and there are no lumpy one-offs that are being relied on to get across the line for the guidance number. Thank you.

Mark Wratten - ***Vocus Communications Ltd - CFO***

Hi Andrew. I'll take on the first one. I've only been here for five weeks so you've got to take my answer in -- with that in mind. Certainly -- and I need to get across the business more. But certainly I see huge opportunities across the business to improve not only our controls over CapEx and how we budget and forecast it and control the approval process for it, but also obviously, as I mentioned in my presentation, working capital, and a number of other things, which is great for me. It's like a huge opportunity.

CapEx, obviously the business prides itself on being agile and nimble, so we're going to have to make sure that we set up a process where we can make decisions quickly. But it needs to go through a proper process and a chain of command. We need to make sure that it fits in with our overall cash planning. It's that area that we can tighten up significantly in my view. So once I get through results, that will be a key focus for myself and the finance team to work with the businesses.

We've been through quite a process in the last week in terms of building up that CapEx profile, and I think that it's given me a bit of a background in terms of how it's come together. I think we need to have -- we need to be able to do it a lot easier than what we have done. So as I said there's lots of opportunities, but at the same time we don't want to stifle the business in terms of being agile.

There was a second part to that question.

Andrew Levy - ***Macquarie Securities - Analyst***

Just on CapEx to sales medium-term.

Mark Wratten - ***Vocus Communications Ltd - CFO***

Yes. Well as Geoff mentioned, the guidance for the full-year is ADU182 million, which is probably around 10% of -- that's excluding the cable project, around the 10%. I haven't been here long enough to know whether that's the right number or not. Certainly it's a large amount of money, and part of my job will be to make sure we're spending that wisely, and we're balancing obviously all of the various needs of the business to ensure that we're just, as I said, very disciplined in how we spend that money.

Geoff Horth - ***Vocus Communications Ltd - CEO***

I think probably it reflects the fact that there is some additional investments in transformation happening in the business today, Andrew. The reality is that it arguably could be a little bit lighter in terms of percentage of sales, but if you look at the value enhancement CapEx, that's actually to some extent integration work in billing consolidation and rolling out transformation projects and all those sorts of things.

I think that we should be prepared to continue to spend as much CapEx as we possibly can in growth. It's just about doing it diligently. I think if there's going to be any improvement in that CapEx profile, it will be that we don't have to spend the enhancement CapEx forever. But yes, as long as we're disciplined about the way we spend our growth CapEx and it's going into core assets and networks, then we should do that.

The question about Nextgen, yes, if you add the first-half contribution to the second-half guidance there is a range of AUD41 million to AUD46 million, and we called out AUD41 million. There might be a little bit of upside in that business in the second half. I think it might be able to outperform the AUD41 million we called out.

We're definitely probably going a little bit -- you're seeing a little bit more opportunity in synergies than we called out as well, but that wouldn't be captured in that second half number. So I think we're disappointed with the earnings performance of the business. We're delighted with the asset, and we just have to make sure we make the most of it.

It's now in the hands of our whole sales team. That Nextgen team have integrated into the Vocus teams. We've got a very clear product portfolio and focus about selling that.

Your last question was about the AUD430 million to AUD450 million, whether we're relying on any one-offs. I think there's the possibility of one-offs. Whether they'll help us to outperform, or they'll help us to mitigate any downside risks is to be seen, but yes, there are some potential contracts in the pipeline that could be one-off benefits to earnings.

That's a good thing. It's just about making sure that we're transparent with that and call it out. So if there are any one-off benefits in the second half we'll be sure to tell you.

Andrew Levy - ***Macquarie Securities - Analyst***

Are we talking like low single digits here, or possibly double-digit earnings contributors out of those type of one-offs?

Geoff Horth - ***Vocus Communications Ltd - CEO***

No, not double-digit earnings contributors by any standard, no.

Andrew Levy - ***Macquarie Securities - Analyst***

Yes.

Geoff Horth - ***Vocus Communications Ltd - CEO***

I wish they were.

Andrew Levy - ***Macquarie Securities - Analyst***

Thank you.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Thanks.

Operator

The next question comes from Brian Han from Morningstar. Please go ahead.

Brian Han - ***Morningstar - Analyst***

Good morning gentlemen. Mark, did you have much input into this presentation in terms of disclosure? Would you foresee any more changes to segmental disclosures going forward?

Mark Wratten - ***Vocus Communications Ltd - CFO***

Yes, I did. I obviously came on board on 16 January, and we'd had -- Kelly's been on board for a while, so we had a good framework developed. My view is the more transparent we can be with the -- our investors and the analysts, the better.

So certainly we'd be looking to enhance what we've provided this time around when we come back again the next time around, and to continually listen -- the next week for me is going to be a big learning curve as we go around and talk to investors and talk to analysts, and I'll be listening a lot to the types of data that you need to help understand our business better.

Certainly we'd be looking to over time deliver that in a more comprehensive fashion than what we've done in the past. But I think today is a good step forward.

Brian Han - ***Morningstar - Analyst***

Fantastic Mark. Mark, while I have you there, on page 18 of your presentation, what does that 1.2 times leverage figure -- what does that mean? Does that mean you have 1.2 times EBITDA worth of headroom to covenant?

Mark Wratten - ***Vocus Communications Ltd - CFO***

Yes, that's correct.

Brian Han - ***Morningstar - Analyst***

Right. Because if that's -- that's not the current metric -- that's not the current leverage, is it?

Mark Wratten - ***Vocus Communications Ltd - CFO***

No, that's not the current leverage. Again this is one area where we'd like to disclose more going forward, but certainly that's our headroom, you're right, 1.2 times EBIT -- trailing EBITDA is our headroom currently.

Brian Han - ***Morningstar - Analyst***

All right, I just wanted to check that figure. Okay, thanks Mark.

Mark Wratten - ***Vocus Communications Ltd - CFO***

Thanks for the question.

Operator

Your next question comes from Roger Samuel from CLSA. Please go ahead.

Roger Samuel ***- CLSA - Analyst***

Hi, morning guys. I've just got a couple of questions. First one is just on the new wholesale contract which you signed in the first half. What's the nature of that contract? Is it like a (inaudible), and did you receive the cash upfront in the first half?

The second question is just on the provisioning issues that you highlighted at the AGM. I'm just wondering if everything has been resolved both in mass market as well as corporate and wholesale as well.

Geoff Horth ***- Vocus Communications Ltd - CEO***

I think the second question first, the provisioning issues are -- the platform issues that we experienced with a broadband supplier in the first half have been resolved, and platform is now stable. We've actually done some work to make our systems a bit more resilient in the event of future failures of that system. So I'm pretty confident that's under control.

The provisioning backlog in corporate and wholesale, we're catching up, but they started the first half with the view that they have to get to a certain point to be back on SLA and then outperformed again in the third and fourth quarter in terms of sales. So we are still playing a little bit of catch-up in that part of the business.

But we've got a plan, and we've got a clear strategy about it, and we're starting to see some of the revenue flow through from that provisioning backlog.

In terms of the IRU sales, we had some -- we did some -- a deal in the first half which should be delivered in the second half. It isn't in earnings, but there was some cash flow associated with that.

Mark Wratten ***- Vocus Communications Ltd - CFO***

It's in the first half cash flow.

Roger Samuel ***- CLSA - Analyst***

So it's in the first half cash. Okay. Can you tell us how much was the quantum of cash that you received in the first half?

Geoff Horth ***- Vocus Communications Ltd - CEO***

I need to take that on board, and we'll just check whether we're able to disclose that or not.

Roger Samuel - ***CLSA - Analyst***

Sure. That's going to affect your cash flow conversion as well.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Yes, of course.

Roger Samuel - ***CLSA - Analyst***

Yes, okay, thanks.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Thanks.

Roger Samuel - ***CLSA - Analyst***

Thanks guys, that's all.

Operator

Your next question comes from David Spotswood from Shaw and Partners. Please go ahead.

David Spotswood - ***Shaw and Partners - Analyst***

(Inaudible - technical difficulty) what's a reasonable number to expect of the interest costs in the second half? I just wanted to confirm you're saying that the D&A in the second half will be AUD60 million. So just those two questions.

Then just a general question. There's been a lot of change in staff. Has there been any significant staff losses post-31 December, key people leaving, or has that stabilized? Thanks.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Do you want to talk about interest costs?

Mark Wratten - ***Vocus Communications Ltd - CFO***

Yes, certainly. If you look on slide 13 we've got interest and taxes of AUD39 million combined. In the second half it will probably switch around like that. Our cash tax payments or instalments in the second half will be a lot lower, but our interest expense will be higher because our borrowings would have been higher for a full six months of that half. So you could probably look at that same number as combined between interest and taxes being a second half outflows in those two line items.

I think your other question's around D&As, and I did mention that our forecast in the second half for depreciation is AUD50 million, and AUD10 million for above the line amortization expense.

Geoff Horth - ***Vocus Communications Ltd - CEO***

In terms of staff departures, David, the reality is that we've had significant numbers of staff departures. We did our day 100 rationalization of Nextgen and there was probably 40-odd people that left the business as part of that. You should expect to continue to see that. The business has got a synergy program to deliver on and it will mean there will be people leaving the business.

Operator

Your next question comes from Craig Wong-Pan from Deutsche Bank. Please go ahead.

Craig Wong-Pan - ***Deutsche Bank - Analyst***

Morning. First question on revenue guidance. Are you still guiding to AUD1.9 billion of revenue for the full year? Secondly, on the corporate and wholesale division, even if you strip out Nextgen, it looks like your margins have continued to decline just by about 100 basis points. Just wanted to see if that's correct and in what areas you're seeing that in.

Then thirdly, on the dividends, in the operational financial review, there is a line that talks about the Board of Executives to review the dividend payments which is kind of greyed out instead of the color of the text. I just wanted to see if there was anything more to that, or if that's just a general statement.

Then lastly, on the one off that may contribute to your guidance for FY17, is that (inaudible) those are in there to sort of help you get to that number? Or is that the kind of explaining the difference in that variance from AUD430 million to AUD450 million?

Geoff Horth - ***Vocus Communications Ltd - CEO***

Yes, I think Craig, just trying to work through those questions. I think the corporate and wholesale margin decline, I think we might have described it in the TFR as actually being related to the mix change. Because we've actually consolidated the M2 wholesale business into corporate and wholesale, and it's obviously a predominantly reseller business. That's probably the key contributor to the gross margin changes in the corporate and wholesale business.

In terms of one-off benefits in the second half, I think I said that we've got a business that has some potential opportunities for one-off earnings in the second half. Whether those earnings actually become incremental to the result we would have otherwise achieved, although actually they helped to offset some other investments we make, or other headwinds we face is yet to be seen.

At the end of the day, they do give us some comfort around reiterating guidance. I think I wouldn't say whether they're going to be incremental or whether they're just going to help us to achieve the outcome, because that will depend on what other investments we make.

THOMSON REUTERS

In terms of the AUD1.9 billion in revenue, we haven't changed our revenue guidance. It's a good point that it's not in there, but that's not deliberate. It should actually be in the release. We're still guiding at circa AUD1.9 billion in revenues for the full year.

Mark Wratten - ***Vocus Communications Ltd - CFO***

I think you're referring to the interim dividend paragraph in the ASX release. I mean I don't know why, it's just an editing issue in terms of why it's greyed out. But that comment is completely in line with what our previous board policy in regards to dividends. As Geoff mentioned at the outset, we'll obviously review our dividends in light of our growth opportunities and other capital requirements.

Craig Wong-Pan - ***Deutsche Bank - Analyst***

Okay, so there's no kind of new review or(inaudible) review that's going on instead of a general comment.

Mark Wratten - ***Vocus Communications Ltd - CFO***

Yes, that's correct. Just reiterating what it was before. There was no review.

Craig Wong-Pan - ***Deutsche Bank - Analyst***

Okay. Thanks.

Operator

Your next question comes from Eric Pan from JP Morgan. Please go ahead.

Eric Pan - ***JP Morgan - Analyst***

Good morning guys. Thanks for taking my questions. First on the consumer mass market side, it would seem that the NBN ARPU seem to be lower than the one that was reported at the AGM. Can you talk a little bit about what happened there?

Then is there much of a difference between Commander and your consumer margins, as well as in terms of Commander on the NBN versus the ADSL.

Then on the energy business, can you talk about the (inaudible) margins we can expect in that and how does the recent volatility in energy prices affect you?

Geoff Horth - ***Vocus Communications Ltd - CEO***

I'm just trying to check that I've actually captured all the questions, so if I miss any please come back to me.

THOMSON REUTERS

The NBN ARPU or AMPU, there's actually a difference between what we previously disclosed in terms of ARPUs and what's now disclosed at ARPUs. That's because frankly we're improving the quality of the financial information we're producing consistently, and we acknowledge that the previous ARPU actually had an element of hardware revenues in it because we were selling modems to customers.

That was impacting revenues and we were treating that as part of the total revenue pool for broadband and dividing it by the number of subscribers. When we look at that we say it's actually not a recurring revenue item. We thought we'd actually captured that with the last update of the ARPUs. We had not.

We have a high degree of confidence around the number that's in there today. You'll see we've actually had a small decline in the AMPU for NBN subscribers as well. It's reflective of some additional CVC costs, and some of the work that we've been doing around customer acquisition, including some three month free promotions.

I don't necessarily think it's a long-term trend but it is something that's going to impact on AMPUs whilst we're doing that promotional pricing.

The question around consumer versus Commander margins.

Eric Pan - ***JP Morgan - Analyst***

Correct.

Geoff Horth - ***Vocus Communications Ltd - CEO***

So you'd just to compare what our Commander margins look like relative to what our consumer margins look like.

Eric Pan - ***JP Morgan - Analyst***

Yes, that's correct.

Geoff Horth - ***Vocus Communications Ltd - CEO***

I think that's probably another area where we've got a little bit of opportunity to improve the quality of information. The typical commander customer today on a legacy network would have a couple of PSDM lines and a DSL service. Average revenues in the vicinity of AUD250 a month. Margins are not inconsistent. It's slightly better than consumer margins in the vicinity of 40% to 45% gross margins.

As customers migrate into NBN actually have a reasonably significant decline in revenues. We're seeing up to 20% decline in the total revenues of a customer migrating to NBN, but pretty equivalent actual margin contributions in dollar terms.

We actually improve our earnings margins moving our customers to NBN. That's because we're actually not paying for three access lines, we're paying for a single NBN access service. Because we're terminating all the [voice] on our own network rather than via a third party we get the benefit of actually having that customer on [net] rather than on a reseller arrangement.

I wasn't sure, did you have another question? Was there one more? Sorry.

Eric Pan - ***JP Morgan - Analyst***

Yes. The last question was the type of margins you expect from the energy business, and how is the existing volatility energy prices affect you?

Geoff Horth - ***Vocus Communications Ltd - CEO***

Our business is actually traditionally generated in the vicinity of 18% to 19% gross margins, which is quite a modest margin business. They're very low cost to serve. We know it's in excess of [$]170 million of revenues in that portfolio now which has been built solely on an organic basis from the ground up.

We'd expect the margins to be not dissimilar in the second half. Obviously, those events a couple of weeks ago, there was a bit of volatility but we're very significantly hedged, and we're not particularly exposed to the very volatile markets. We have a small number of customers in Queensland, in South Australia. In fact, we've actually pulled back on any growth in those markets just to minimize any risk associated with that.

As you know it was an unseasonably warm few days in New South Wales, and a bit of volatility in energy prices. The impact of that has not been material. It probably means that our second half gross margins in the energy portfolio will be off maybe 1%, but we have quite a conservative hedging strategy with that portfolio so we weren't particularly exposed through that process.

Eric Pan - ***JP Morgan - Analyst***

Great. Thank you.

Geoff Horth - ***Vocus Communications Ltd - CEO***

Thanks very much.

Operator

Your next question comes from Raymond Tong from Evans and Partners. Please go ahead.

Raymond Tong - ***Evans and Partners - Analyst***

Morning Geoff, Mark, and Kelly. Just a few questions. Just firstly on the AC IOU payments. Just wanted to understand firstly how that impacts P&L.

Geoff Horth - ***Vocus Communications Ltd - CEO***

So, AFC IOU payments, there's no in fact on the P&L.

Raymond Tong - ***Evans and Partners - Analyst***

So, that's just a cash impact over the next couple of years?

Mark Wratten - ***Vocus Communications Ltd - CFO***

Yes. It's project build costs that we just set out on that slide in the investor presentation.

Raymond Tong - ***Evans and Partners - Analyst***

Okay, great. Just in terms of the repricing of the consumer broadband base, can you sort of give a sense of what the response has been from new and existing customers, and what kind of sort of financial benefit you expect to see over the next 12 to 18 months from that?

Geoff Horth - ***Vocus Communications Ltd - CEO***

I think the repricing exercise was targeting some specific customers. We had some general price increases but the component of the iPrimus portfolio that was in zone 2 and 3 that had been sold traditional zone 1 pricing.

So, we actually had a portfolio of iPrimus that was loss making that didn't have short term migration to NBN opportunities. So, that part of the portfolio we wanted to increase pricing on. We saw a pretty significant customer response and a bit of churn through that. It was highly expected.

The Dodo pricing, the Dodo reprice really is concluded. We're not going to do a lot more of that. I think that what fundamentally happens is we migrate customers to NBN as we get the uplift in price anyhow. So, it's a just about figuring out whether it's going to affect your ability to acquire share being at AUD65.40 rather than -- or AUD65.90 rather than AUD59.90.

The big challenge of that price objection is the modem inclusion. So, our sales teams have had to manage a, they were generating the (inaudible) off a lower price point. Our customers are coming on the back of an ad that says buy Dodo for AUD29.90.

Our sales team then upsells those customers more than 90% of those customers to an unlimited AUD59.90 plan previously. Their biggest objection with that price point was that we weren't providing a modem for customers. They'd say well we can go to TPG and get a modem included for AUD59.90. So, we changed our approach. We are giving a modem to every customer. We've increased the price to help compensate for that to AUD64.90.

Actually, the conversion rates when we separate, it was a bit of a perfect storm unfortunately. We increased the pricing at the same time as we had the provisioning platform issues. Lost a bit of confidence in our sale steams when they're encountering those sorts of issues and getting customer buy-back through that.

What we're seeing as we come out of the end of the year into this year is a more normal environment and we're seeing conversion rates actually rebounding to the levels that we had when we were at AUD59.90 price point. The thesis was that whilst it will create additional objection of price, it would remove the objection of modem. We're starting to see that flow through.

As that portfolio migrates to NBN we're getting higher ARPUs, a better price point, and we're also seeing lower churn. I think that will have a positive impact on earnings in that business in the longer term.

Raymond Tong *- Evans and Partners - Analyst*

Thanks Geoff. Just my final question just on Nextgen just post the integration. I think you mentioned in November that there's been some customer churn post integration. It sounds like that's stabilized at the moment and things are back on track at the moment.

Geoff Horth *- Vocus Communications Ltd - CEO*

Yes, I think we had some customer churn in that period leading up to completion. We've done a lot of work building out relationships. It's probably has given some people some comfort. There's always a level of uncertainty when you're changing ownership both within the team and within the customer base.

We've been absolutely front foot in terms of engaging with those customers. Particularly, some of the key government accounts. We have a really strong level of engagement there at very senior levels both in our business and our chairman involved, and myself involved in those customer relationships. It's been relatively stable.

We're definitely starting to see some good growth opportunities off that both through those new markets of government enterprise and also through just enabling our existing sales teams with this fantastic network. We're pretty pleased with what we're seeing there at the moment. We've just got to get on the front foot in the market and take the asset out for a spin.

Raymond Tong *- Evans and Partners - Analyst*

Great. Thanks Geoff.

Operator

There are no further questions at this time, Mr Horth. Please continue.

Geoff Horth *- Vocus Communications Ltd - CEO*

Well thank you very much everyone. I'll call the meeting to a close and thank you for your time and look forward to seeing you all in the coming days as we go through the roadshow. Thanks again.

Operator

That concludes our conference for today. Thank you for participating. You may all disconnect.